From: Clausen Robert L. (DNREC)
Sent: Wednesday, August 02, 2006 7:17 AM
To: Amirikian Ronald A. (DNREC)
Subject: NRG

NRG Energy, Inc. Reports Second Quarter 2006 Results; Expands FORNRG Performance Improvement Program; Announces Capital Allocation Plan; Revises 2006 Guidance

PRINCETON, N.J., Aug 01, 2006 -- BUSINESS WIRE NRG Energy, Inc. (NYSE:NRG) today reported second quarter 2006 operating income of $416 million versus $43 million for the second quarter of 2005. Cash flow from operations was $238 million, including a $42 million reduction in the amount of cash collateral posted in support of trading operations, compared to $27 million during the same period last year which included a collateral outflow of $179 million. For the six months ended June 30, 2006, operating income was $626 million versus $90 million for the same period last year. Cash flow from operations year to date was $604 million for 2006, an increase of $513 million over 2005. Net income for the three and six months ended June 30, 2006 was $203 million and $229 million, respectively, as compared to $24 million and $47 million for the same periods last year. Net income in 2006 included $105 million in after tax refinancing expenses incurred as part of the first quarter closing of the Texas Genco acquisition, partially offset by $49 million in after-tax one-time gains related to the resolution of disputes and litigation.

The quarter-on-quarter and year-to-date operating income increases largely reflect the February 2, 2006 acquisition of Texas Genco (now known as NRG Texas). Also contributing to the improved second quarter performance were plant operating rate improvements at five of the six classic NRG baseload coal plants and higher New York capacity prices versus the same period last year. These improvements were partially offset by increased general and administrative expenses associated with the NRG Texas integration and Mirant-related expenses. The year-to-date results benefited from $67 million in surplus emissions allowance sales and $30 million in improved South Central margins achieved primarily through higher plant operating rates and increased merchant sales. Offsetting these increases were $69 million in lower Northeast margins due primarily to the unseasonably mild weather in the first quarter, higher operations and maintenance expenses due to increased major maintenance, and higher general and administrative expenses.

"As we informed the market during the Texas Genco acquisition financing, we expected cash generation from both our Texas business and the classic NRG portfolio to pay immediate benefits in terms of a return to our shareholders," said David Crane, NRG's President and Chief Executive Officer. "Now, with all aspects of our business performing at higher levels as a result of the continued success of the FORNRG program and the integration of NRG Texas almost complete, we are in a position to fulfill our promise with a $750 million capital allocation program."

Texas: Lower than anticipated power prices realized on merchant energy sales from our gas fleet and the unhedged portion of our baseload fleet offset these results during the quarter and half year. Results benefited from continued strong operating performances from our baseload fleet, coupled with higher than expected generation from our Texas gas plants. This was largely driven by increased demand from hotter than normal weather and significant outages by other baseload power plants in the region. Amortization associated with net out-of-market contracts increased pre-tax operating results by $212 million and $225 million, for the quarter and year-to-date, respectively. Quarterly baseload plant operating performance was excellent at Limestone, Parish and the South Texas Project. Integration of the NRG Texas business continued throughout the second quarter and is on target for completion during the third quarter.

Northeast: Lower quarterly results for the Northeast, after adjusting for MtM impacts, were driven by weaker power prices and lower generation. Decreased demand, predominantly due to milder than expected weather, for our peaking assets resulted in lower generation hours from the oil-fired and intermediate gas-fired assets. Partially offsetting the lower demand was significantly improved equivalent forced outage rate performances from the Indian River, Huntley and Dunkirk plants, the reversal of a net $15 million station service reserve, and improved capacity pricing in New York. For the year-to-date, mild weather in the first quarter and continuing weak power prices were partially offset by sales of surplus emission allowances related to the reduced first quarter generation levels, and the improved operating performance and capacity prices.

South Central: Quarterly and year to-date results reflect higher net merchant sales at prices above contracted energy prices. Improved unit availability reduced the need to purchase power to service our long-term coop contracts. By contrast, during the second quarter of 2005, Big Cajun II experienced a number of unplanned outages which required us to purchase energy to serve contracted load.

Western: Improved quarterly results are largely attributable to the acquisition of Dynegy's 50 percent interest in West Coast Power (WCP), which closed March 31, 2006. The impact of the additional ownership is offset by lower reliability-must-run (RMR) fixed cost recovery by Encina units 4 and 5 and lower equity earnings from our Saguaro investment due to the June 2005 expiration of its favorable gas contract.

Australia: In June 2006, NRG announced it had entered into a purchase and sale agreement to sell its Flinders and Gladstone investments in Australia to Babcock & Brown and Transfield Services, respectively. Flinders has been reclassified as discontinued operations and excluded from income from continuing operations while Gladstone results continue to be reported as part of equity earnings of unconsolidated affiliates. Completion of the Flinders sale is expected in the third quarter and the Company is seeking to close the Gladstone sale later in the fourth quarter, subject to significant conditions precedent.

Other North America: Results for the quarter reflect our continuing efforts to monetize non-strategic assets. This quarter, we sold our interests in the James River and Cadillac equity investments for total cash proceeds of $19 million and a book gain of $11 million. Year-to-date results include other income of $67 million related to a settlement agreement reached with an equipment manufacturer associated with turbine purchase agreements from 1999 and 2001, and the Rocky Road sale.

Other International: Improved quarterly results were due to lower operating costs at our Itiquira operation in Brazil and increased equity earnings from our MIBRAG investment, the 2005 quarterly results of which were lower due to customers' planned outages. Additionally, we sold our interests in various Latin Power funds for net cash proceeds of $23 million and a pre-tax gain of $3 million. Year-on-year results are lower largely due to the impact of the sale of Enfield on April 1, 2005, which contributed $16 million to earnings during the first half 2005, partially offset by higher equity earnings from our MIBRAG investment.

MtM Impacts of Hedging and Trading Activities

The Company, in the normal course of business, enters into contracts to lock in forward prices for a significant portion of its expected power generation. While these transactions are predominantly economic hedges of our baseload portfolio, a portion of these forward sales are not afforded hedge accounting treatment and the MtM change in value of these transactions is recorded to current period earnings. Driving the forward MtM gains in the first quarter of 2006 was the unseasonably mild weather in the Northeast that resulted in lower energy prices for the first quarter with further declines in the second quarter. For the second quarter 2006, we recorded $37 million of forward domestic net MtM gains, compared to a $5 million net domestic MtM loss recorded in the second quarter 2005. In addition to this forward gain in the quarter, of the $119 million MtM loss recognized in 2005, $21 million reversed to income during the second quarter in 2006 and $65 million year-to-date.

Liquidity at June 30, 2006 was $1.98 billion, up $44 million since March 31, 2006 and approximately $1.2 billion since December 31, 2005. The $130 million cash increase during the quarter resulted from $238 million of cash from operations which included a reduction of $42 million in the amount of cash collateral posted to support trading operations, and $42 million in proceeds from asset sales. These improvements were offset by $72 million in cash interest payments, $39 million in capital expenditures, $46 million in principal debt repayments and $13 million in preferred dividend payments.

Posted cash collateral supporting hedging and trading activities at June 30, 2006 totaled $209 million, of which $135 million is expected to be returned to the Company during 2006 as the underlying trading positions settle during the year.

Capital Allocation -- Share Repurchase Program

The Company is announcing today a $750 million share repurchase program which, due to the restrictions imposed by our loan covenants, will be implemented in two phases. Phase One is a $500 million common share repurchase program which the Company intends to commence immediately and complete over the course of 2006. In addition, the sale of the Australian business is expected to provide approximately $400 million in net cash proceeds that NRG intends to use to pay down its Term B loan in the first quarter of 2007. Consolidated project level debt associated with Australia is $177 million, bringing total expected debt reduction to $577 million. Phase Two of the share repurchase plan -- which will be initiated after the expected step up in the Company's restricted payment capacity at the end of the first quarter 2007 -- is an additional $250 million common share buyback. The Company reserves the flexibility--based on market conditions at the time -- to reallocate all or a portion of Phase Two to the initiation of a common share dividend.

"The capital allocation program that we are announcing today has been carefully sized and structured to return significant capital to shareholders in the near term, reduce leverage at the corporate level, and retain financial flexibility to support the ongoing fleet redevelopment initiative," said Robert Flexon, NRG's Executive Vice President and Chief Financial Officer. "By focusing on a large buyback in the near term, we expect to be able to take maximum advantage of the significant undervaluation of our equity," added Flexon.

To execute the first phase of the share repurchase plan, within the limitations contained in the Company's credit agreement and bond indenture, the Company will form two wholly owned subsidiaries to hold the repurchased shares. The initial capitalization of the subsidiaries includes $166 million in cash from the NRG parent. Additionally, the subsidiaries will enter into non-recourse debt and preferred purchase agreements with units of Credit Suisse for an incremental $334 million -- funded through $250 million in debt and $84 million of preferred equity. Neither the debt nor the preferred will be recourse to NRG. The shares, which will be repurchased between now and year end, will serve as collateral for the debt. Periodic funding will be drawn pro rata from the subsidiary's $166 million in cash received from the parent and the $334 million in debt and preferred financings from Credit Suisse. The difference between the $334 million of facilities and the $400 million of maturities reflects accrued interest and dividends to be paid at maturity. Credit Suisse will retain the economic benefit of share price appreciation in excess of a 20 percent compound annual growth rate.

FORNRG -- Increased Targets

The Company is also announcing today the expansion and extension of the Focus on ROIC@NRG (FORNRG) program. NRG achieved $39 million of related savings in 2005 and expects to have cumulative savings of $81 million by year end 2006. With the addition of NRG Texas, the current target of $105 million improvement in EBITDA by 2008 is being increased to $200 million of recurring EBITDA improvement plus an additional $50 million of incremental cash benefit by 2009 recognizing:

-- continued benefits from improved reliability and reduced EFOR results; and

-- cost synergies and purchasing related initiatives, which are driving enhanced returns for NRG Texas.

Repowering Update -- Analyst Conference

On June 21, 2006, NRG announced a comprehensive portfolio redevelopment effort, which involves the development, financing, construction and operation of up to 10,500 megawatts (MW) of new multi-fuel, multi-technology generation capacity at NRG's existing domestic sites to meet the growing demand for (principally) non gas-fired generation in all of the Company's core domestic markets. NRG expects to provide additional detail with respect to this program at our first Analyst Conference to be held October 16-18, 2006.

Outlook

The Company is lowering 2006 adjusted EBITDA guidance from $1,600 million to $1,500 million to reflect:

-- The classification of Flinders as discontinued operations (approximately $45 million)

-- Development expenses associated with Requests for Proposals for several repowering and development initiatives (approximately $10 million);

-- Mild weather in the first quarter; and

-- Lower power prices due to the steep decline in 2006 natural gas prices.

Although 2006 natural gas calendar strip prices have declined over 30 percent from fourth quarter 2005 levels, the net impact on our previous 2006 adjusted EBITDA guidance is approximately three percent, demonstrating the benefit of our actively managed hedging program and our diverse asset base. Cash flow from operations guidance is being reduced from $1,380 million to $1,324 million. The reduction reflects an August close for the Flinders sale. Achieving our revised target remains dependent on several factors, including normally seasonal weather and stable power prices, particularly for the balance of the third quarter.